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ABSTRACT

Some of the creative financing programs currently used to provide faculty housing assistance in California and elsewhere in the United States are described. Generally, the programs fall into one of four categories: rental housing, owner housing, mortgage assistance, and housing stipends. Institutions with a comprehensive housing program often have more than one of these programs available to assist faculty. A number of campuses have traditionally provided rental faculty housing. To meet the needs of faculty who prefer to rent or who must rent, the University of California has embarked upon an extensive program of providing faculty rental apartments on the various campuses. Mortgage assistance takes the form of either first mortgage (trust deed) assistance or second mortgage (trust deed) assistance. Universities that have extensive first mortgage programs include Columbia University, Princeton University, and Stanford University. Under faculty housing construction programs, institutions provide land for development of faculty housing for sale. The primary benefit to the faculty is the availability to purchase housing on leased, on-campus land and the proximity of the housing to academic facilities. The use of housing stipends, which can include housing relocation allowances, temporary cost-of-living increases, housing payment subsidies, and interest payment subsidies, is the major trend in the private sector to attract new employees to California. Components that should be included in a housing survey of campus faculty are outlined. It is suggested that colleges should be prepared to review their programs annually and to adjust the program in response to changing market conditions. (SW)

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Faculty Housing Assistance

By IRA FINK

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Ira Fink is an architect who heads his own university/community planning consulting firm in Berkeley, California. This article is a summary of an analysis that appeared in the Spring 1982 Planning for Higher Education Quarterly, published by the Society for College and University Planning.

Faculty housing assistance is not new. However, in the 1980s it has become and will continue to be an important issue. Institutions that compete nationally in recruiting and retaining faculty will find more of their new appointees aware of the local housing markets and of what housing costs mean to them. Until a few years ago, the acquisition of housing by faculty and others was primarily for shelter purposes. Today the shelter component still exists, but housing is increasingly viewed as an investment as well.

Faculty who own their homes can easily recognize that with traditional fixed-rate mortgages, their housing costs are basically level. Thus, as their incomes rise, the percentage of their incomes devoted to housing continually decreases. The interest the faculty pay on their mortgages or trust deeds is deductible from their income tax, and in this inflationary economy with its reduced output of housing and high interest rates, their existing housing units have until recently experienced great appreciation in value.

However, the factors of high housing costs, high interest rates, the decreasing availability of level-term mortgages, and the need for funds for a housing down payment and closing costs all act to hamper the first-time faculty home buyer. As acute as the housing acquisition problem is across the nation, it is more acute in areas where some level of control has been placed on the amount of housing that is supplied, and in most urban areas in California.

In order to acquire housing, the term that is often applied to housing financing today is "creative financing." Creative financing usually involves the seller of housing helping to finance the buyer. This article explores some of the creative financing programs currently used to provide faculty housing assistance both in California and elsewhere in the U.S. Generally, the programs fall into one of four categories: rental housing, owner housing, mortgage assistance, and housing stipends. Institutions with a comprehensive housing program often have more than one of these programs available to assist faculty.

Rental Housing

A number of campuses have traditionally provided faculty housing for rent. These include the University of Chicago, Harvard University, the University of Illinois, the University of Iowa, Michigan State University, Princeton University, and the University of Wisconsin. Most of the housing units have been part of the university's housing supply for a decade or more. Some of the units were designed specifically as faculty housing projects, while some were purchases of existing housing that was made available for rental to the institution's faculty.

While it is expected that most faculty would prefer to own their housing for the reasons outlined earlier, a number of faculty traditionally have rented their housing. However, the percentage of newly appointed faculty who seek rental housing appears to be declining. The results of a study conducted by the author for the University of California in 1978 of newly appointed faculty from 1975 to 1978, and a study conducted in 1981 of faculty appointed between 1978 and 1981, show the change to be quite dramatic. In 1978, 9 percent of all newly appointed University of California faculty indicated that they preferred to rent, while another 27 percent indicated they were renting because they could not find suitable or affordable housing to purchase. By 1981, the percentage of newly appointed faculty who preferred to rent had decreased to 3 percent, while an additional 26 percent stated they were renting because they could not find affordable or suitable housing to purchase.

To meet the needs of the faculty who prefer to rent or who must rent, the University of California has embarked upon an extensive program of providing faculty rental apartments on the various campuses. Since 1980, 50 faculty rental apartments have been constructed at U.C. Santa Cruz and 50 units at U.C. San Diego. Construction is currently nearing completion on 100 units of faculty rental apartments at U.C. Irvine and 72 units are under construction at U.C. Los Angeles. Both U.C. Berkeley and U.C. San Francisco are also considering the development of faculty rental apartments through rehabilitation of existing buildings. The units will be self-amortizing, with rentals from the units used to repay the revenue bonds issued by the regents to finance the units. Because the demand for faculty rental units has decreased dramatically in the past three years, the occupancy of the units by faculty at this time is low, and others, including students and staff, are presently renting the units as well.

Mortgage Assistance

Mortgage assistance takes the form of either first mortgage (trust deed) assistance or second mortgage (trust deed) assistance. While a number of institutions have, on a case-by-case basis, assisted selected faculty in obtaining first mortgage loans, only a few have had extensive first mortgage programs. These include Columbia University, Princeton University, and Stanford University. Their programs have traditionally used unrestricted endowments to provide fixed-rate, long-term mortgages at a rate slightly below the private market rate. Stanford University recently changed its first mortgage program to a second mortgage program with shared appreciation; this program is described later in this article.

First Mortgages. Among the most creative first mortgage programs are two at the University of California. The first program was issuance by the regents in 1979 of $25 million in faculty residential mortgage revenue bonds. The proceeds of the bonds were used to assist 180 faculty on the nine campuses in obtaining 30-year, fixed-rate mortgages at 7⅞ percent in amounts up to $135,000.

Through 1979, more than $4 billion in similar tax-exempt, residential mortgage revenue bonds had been sold by cities, counties, and state agencies throughout the U.S. The popularity of the tax-exempt mortgage program, one of the most innovative housing finance programs since World War II, led to considerable congressional debate in 1979 and 1980 as to whether low- and moderate-income households were benefiting from the program. Subsequently, the federal Mortgage Subsidy Bond Tax Act of 1980 was passed. The act imposed considerable requirements for future bond issues to retain their federal tax-exempt status.

Thus, tax-exempt residential mortgage revenue bonds, which were one of the most feasible means for providing long-term, low-interest-rate mortgages to faculty and other moderate-income households, have been greatly restricted in their use for this purpose. Since they constitute a drain on federal and state treasuries due to loss of tax revenues (because money that normally would be invested elsewhere would go to the tax-exempt bonds instead), it is unlikely, given the present financial climate in the U.S., that sufficient revisions can be made in the legislation to permit their use in the future as they have been used in the past.

Because this avenue of residential mortgage revenue bonds was closed off, the regents in 1981 embarked on a second major innovative faculty housing assistance program. To create the funds for the University of California Faculty Home Mortgage Program, the university, using unrestricted endowment funds, purchased a $10 million portfolio of existing mortgages at an average interest rate of 9 percent from the Bank of America. Under the agreement with the Bank of America to purchase the existing loans, the bank will make available a total of $15 million in new loans to eligible University of California faculty members. The faculty housing loans will be for a term of 30 years and carry a fixed 12 percent interest rate. (At the current time, this is approximately 5 percent below private market rates.)

The funds from the program are allocated to the nine U.C. campuses, based on a formula to account for differences in the availability and cost of housing. For example, eligible borrowers at UCLA can obtain up to $180,000 of assistance and at U.C. San Francisco up to $150,000 of assistance. The program will be administered by the Bank of America, which will qualify the faculty and service the loans.

Shared Appreciation Mortgages. A number of institutions, including the University of Chicago, Harvard University, Massachusetts Institute of Technology, and the University of Pittsburgh, have offered second mortgage financing to their faculty members. A creative form of second mortgage financing is that offered by Stanford University. In 1980, Stanford started a pilot program known as the second mortgage Co-Investment Program (COIN); a revised program, known as COIN II, is now provided. Under the COIN II program, Stanford will assist eligible faculty in obtaining a lifetime loan on an owner-occupied house. No repayment of the loan or its accrued interest is due until sale of the property or death or separation of the faculty from the university. The surviving spouse is eligible to remain in the property, however.

COIN II provides for sharing some of the risks and financial returns of ownership between the university and the buyer. The amount of a COIN II loan depends on the fair market value of the house. The maximum loan is 70 percent of the housing price for homes costing $200,000 or less, and decreases to 25 percent or $100,000 maximum loan for homes costing $400,000 or more.

The COIN II loans are made with both a current and contingent interest rate applying to the loan. The current interest is calculated at 5 percent of the loan and increases at 0.33 percent per year until it equals the first mortgage rate in effect at the time the loan is made. The contingent interest is in addition to the current interest, but can be accrued and paid as a balloon payment when the COIN II loan is repaid. The contingent interest is calculated on the sum of the original principal and the amount of interest previously financed. The contingent interest rate is set at 20 percent and declines 0.33 percent each year. Thus, the total of the current and contingent interest is 25 percent per year. At the time of sale or repayment of the loan, Stanford's share is the ratio of the COIN II second mortgage to the original price of the house applied to the appreciation, which is the difference between fair market value and original purchase price. At present Stanford has issued approximately 100 shared appreciation loans.

Second Mortgages. As noted earlier, a number of institutions provide second mortgage assistance to eligible faculty members. A unique second mortgage program was the UCLA Foundation Second Trust Deed Program. Because the need for assistance was great, and the funds the foundation had available were limited, the foundation entered into an agreement with California Federal Savings. Under the agreement, the UCLA Foundation, using foundation funds, purchased a $300,000 certificate of deposit for seven years at no interest. In exchange, California Federal provided $1,250,000 in second trust deed loan funds for eligible UCLA faculty. The loans were at 10 percent interest, amortized as if a 30-year loan, but due and payable with a balloon payment at the end of seven years.

Under the program, 75 loans were made to UCLA faculty. The average loan was approximately $15,000, with some of the second trust deed loans at $20,000. California Federal Savings qualified the recipients and services the loans in this program of leverage financing.

Construction of Faculty Housing for Sale

Under faculty housing construction programs, institutions provide land for development of faculty housing

for sale. The primary benefit to the faculty is the availability to purchase housing on leased, on-campus land and the proximity of the housing to academic facilities.

Pepperdine University, at its Malibu, California campus completed recently a 50-unit project that includes 44 condominium units for sale to faculty and six executive duplex units available to senior administrators. The campus, with 2,700 students and 100 faculty, is situated on 819 acres on the California coast. It is located in an area where home sales of beachfront property have reached $1 million, and unimproved lots have sold for $350,000. The condominiums range in size from 1,550 square feet to 2,500 square feet and sell for $88,000 to $150,000. Financing at 12 percent for 30 years has been arranged by the university.

Pepperdine has the right of first refusal on the units, and faculty are permitted to benefit from appreciation on the units at the time of resale based on an index of construction cost for Ventura County. The faculty are required to provide a minimum 20 percent equity investment in the units. All the units have been sold, and a waiting list exists. The units, which assist the university in recruiting and retaining faculty, were offered on a seniority basis to the faculty. The university holds the trust deeds, but a third-party lending agency services the accounts. The Pepperdine project, which took three years in design, permit approval, and construction, opened in February 1982.

At Stanford University, campus lands have long been available for individual faculty lease and individual construction of homes. Presently, 613 single family homes exist on campus lands that Stanford has leased to faculty and eligible staff. Of these, about 100 are occupied by emeriti faculty, and the remainder by active faculty. A few lots, at $55 per month ground rent, are still available.

In 1975, Stanford constructed 82 condominium units, known as the Pierce-Mitchell houses, for emeriti faculty in order to provide housing for the "empty nester" faculty and facilitate resale of existing homes on the campus, which incidentally sell in the $260,000 and higher range. Stanford is presently completing a new 140 unit condominium project known as Peter Coutts Hill for faculty who are either newly appointed or who currently live beyond 15 miles of the campus. These units will range in price from $150,000 to $260,000. Eligible faculty buyers who currently do not own will be able to finance part of the cost of their units with the COIN II program noted earlier and with the Stanford Housing Assistance Program described later in this article under "Housing Stipends."

Stanford is also in the process of proposing the construction of approximately 1,400 additional units (one-third rental, two-thirds owner-occupied) on a 50-acre campus parcel. The project, known as Stanford West, is currently in the environmental impact review process.

Housing Stipends

The use of housing stipends, which can include housing relocation allowances, temporary cost-of-living increases, housing payment subsidies, and interest payment subsidies, is the major trend in the private sector to attract new employees to California. This assistance is usually for a short term and generally is in the form of outright grants, although some of the housing stipends are in the form of loans.

Housing Stipend Loans. One form of housing stipend is the faculty housing loan program of the University of Colorado, approved by the board of regents in August 1981. In this program, the university provides assistance to junior faculty members in their first years of employment to qualify for home purchases for which they normally might not qualify until they had advanced in academic standing and had been at the university for a number of years. This program provides loans as a supplement to the base mortgage financing provided by commercial lenders. These supplemental payments decrease each year as the faculty member's salary and ability to pay the full mortgage rate increase. Beginning in the seventh year, the faculty member repays the university loan or shares with the university the equity in the purchased property. It is expected that the faculty may have to refinance their housing to repay the loans and the accrued interest. The loans are issued at market rate, which for purposes of estimation in August 1981 was 17 percent. Of this interest amount, 6 percent is collected on a current basis and 11 percent is deferred until the time of repayment of the loan.

It is the University of Colorado's principle that it would be the lender of last resort and would not directly compete with private lenders in local commercial markets. The funds for the program are obtained from proceeds of the C.U. Foundation and not from state general fund revenues. As of December 1981 the program was not fully in operation and no loans had been provided.

Housing Salary Supplement. At Stanford University, a new program known as the Stanford Housing Allowance Program (HAP) has been instituted to provide additional compensation to newly hired faculty and senior staff. The housing supplement, available in declining amounts to eligible employees for a period of seven years following their initial home purchase in the Stanford area, is an attempt to address the difference in the cost of home ownership between the Palo Alto area and the average of the nation's metropolitan areas.

The added compensation is proportionate to the faculty member's Stanford income on a formula basis. The allowance formula is $Y = ax^b$, where Y is the housing allowance and x is the nine-month university salary upon appointment/employment. The parameters "a" and "b" will be set annually by the university with the goal of closing the housing cost differential between Palo Alto and an average of the metropolitan areas of the country. The parameter "a" is based on data provided by the Bureau of Labor Statistics, and includes differentials in homeowners' costs, including principal, interest, taxes, insurance, utilities, and furnishings. The parameter "b" (elasticity) represents a measure of responsiveness of the housing allowance to differences in salary level. Parameter "b" is less than one, so that as salary levels increase, the rate of the increase in the housing allowance will decline. Under such formulation, the ratio of housing allowance to university salary (upon appointment/employment) is lower for higher-income individuals. For 1981-82, the Stanford program parameters were $a = 1.947$ and $b = 0.750$. The "a" parameter of 1.947 means that housing in the Palo Alto area is almost twice as costly as the average of housing in U.S. metropolitan areas.

When the program is translated into dollars, a Stanford faculty member with a first-year, nine-month salary of $22,400 would be eligible for a first-year housing allowance of $3,565 at the time a home was purchased within 15 miles of Stanford; for faculty with salaries of $70,000 and above, the first-year allowance would be $8,379. The stipends are taxable income. However, since it is

expected that the funds will be offset by interest payments on the purchased house, there will be no tax liability for all practical purposes.

Faculty Housing Market Analysis

Any institution, prior to embarking on specific funding proposals, should undertake a complete housing survey of campus faculty. This survey should concentrate on the two major groups of faculty: those who have been recently appointed, within the last three to five years, and those faculty, primarily tenured, who have been at the institution for five or more years.

The survey should collect information in the following four areas: (1) current housing situation, including housing type, housing size, housing cost, housing finance, distance from residence to campus, housing status at the time of appointment, and whether or not the faculty member is currently looking for different housing; (2) household characteristics, including gross annual family income, members contributing to housing payments, age, marital status, occupational status of spouse if married, number of children at home, year of appointment, state of residence at time of appointment, faculty rank, and residence zip code; (3) housing availability, to indicate whether the availability of suitable or affordable housing influenced a faculty member's decision to accept a position; and (4) housing assistance, to provide an indication as to whether or not the faculty member would have been interested, either at the time the position was accepted or at the present time, in any of the housing programs proposed by the institution. Additionally, the survey should provide space for open-ended comments from faculty members about their housing situation.

Since the creation of a faculty housing assistance program would involve considerable cash outlays and require a continuing commitment into the future, both in terms of financial and staff operations, a complete picture of faculty interest is needed.

Conclusions

This article has provided an overview of faculty housing assistance programs. As the article indicates, faculty housing needs are relative and vary from campus to campus and from geographic area to geographic area. Any campus embarking on a faculty housing program will have to look at a series of measures to assist faculty. This is due to the variety of faculty housing needs, from rental housing to owner housing, and from financing to subsidy, as well as the ability of the institution to administer such programs.

It has often been said that the best time to buy a house is right now. Campuses that have had longstanding faculty housing programs, such as Harvard University (started in 1954), Princeton University (started in 1958), or Stanford University (started in 1891), have historical and operational advantages over more recently instituted programs, such as those of the University of California or Pepperdine University. It is also clear that there is a need to assist or counsel faculty and to provide them with basic information so that they can be informed housing consumers. While most institutions cannot or do not provide legal advice or financial planning, or function as real estate brokers, faculty and others, especially first-time home buyers, usually need help in understanding housing markets.

As the article indicates, faculty housing assistance programs at most institutions are responsive to changes in housing market conditions, including the availability of housing and the availability of financing. From this perspective, institutions, once embarking on a faculty housing program, should be prepared to review their programs annually and adjust the program in response to changing market conditions. This would imply both a need to have an administrative organization to oversee the faculty housing program and a willingness to be creative in financial solutions. Obtaining funds to create or continue an existing program is a continuing challenge.

While the emphasis in this article and the programs indicated has been on faculty housing assistance, it is not meant to dismiss the need for housing assistance for other employees. Some campuses are already considering all employees in their programs. Obviously, the faculty housing problem is not a problem shared to the same degree or with the same adverse impact at all campuses. However, for those who wish to institute a program, it is possible to develop workable housing programs to assist in faculty recruitment and retention. Each program will have some degree of financial, legal, or policy constraint; some of the constraints can be more easily overcome than others. Many of the programs will be the result of compromise between that which is desired and that which is feasible, but all of the programs will be helpful to one or another faculty. ♦

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